

FRAUD IN THE RETAIL INDUSTRY



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INTRODUCTION

The retail industry has been around for many years and plays a big role in the economy. Fraud that affects the retail industry can also affect society and its economy. In addition, fraud can cost the retail industry on average over \$1 million (Association, 2008, p. 16). Shoplifting can be one of the most costly forms of fraud to a company. Collusion, which may go hand and hand with shoplifting, is another fraudulent activity that can cost retailers a great amount of money. Register theft is a form of fraud that can cost companies billions of dollars each year. Financial statement fraud is different from the others because it is completely internal. Large corporations such as Wal-Mart deal with fraud everyday and have the resources to prevent and detect it. Other smaller companies such as "Mom and Pop Shops" or family owned restaurants, however, may not have those resources. Companies have been doing a lot more to protect themselves from being defrauded by customers and employees. Technology has played a major role in helping companies both large and small to succeed in catching those criminals.

Background

As an accounting student, fraud has always been an interesting and problematic topic. Fraud is something that every accountant and future accountant needs to understand. In order to gain more knowledge on fraud, researching it for a Capstone Project was the best way to fully understand the topic.

Purpose of Report

The purpose of this report is to gain an understanding on some major areas of fraud in the retail industry, understand what companies are doing to prevent those fraudulent activities from occurring, and understand how fraud is being detected by the internal and external auditors.

Scope of the Report

This report looks at four major areas of fraud: shoplifting, collusion, register theft, and financial statement fraud. In each of those areas of fraud this report also looks at what is being done to prevent and detect fraud. All the information gathered in this report comes from current sources (between 2001 and 2008.) Most of the information comes from primary sources, such as, personal experiences and interviews with professionals. All secondary information comes from books, peer reviewed journal articles, and reports.

SHOPLIFTING

Shoplifting Defined

Shoplifting occurs when merchandise is removed from the store without being purchased (Keep & Tian, 2002, p. 61). It costs retailers billions of dollars each year, and both customers and employees are to blame (Stone, 2004). There are many ways that people have been able to take merchandise from the store, which includes, but not limited to, the following:

- Select and push – Taking merchandise and just walking out without paying for it
- Conceal – Putting merchandise in a purse, diaper bag, container, or on oneself and walking out without paying for it (Acres, 2008)
- Consume – Eating or drinking merchandise and throwing away or hiding the packages without paying for it (Keep & Tian, 2002, p. 62). Eating at a restaurant and leaving before paying for the tab also counts (Lohman, 2008)
- Under Ringing – Checking out at a self service station and not ringing all merchandise before placing it in a bag (Acres, 2008)
- Quantity Misrepresentation – Buying identical merchandise and telling the cashier there are fewer of that item than there actually are (Keep & Tian, 2002, p. 62)

While these are the most common ways of shoplifting, some people have also gone into the store with a receipt and picked up a piece of merchandise that is on their receipt and then returned it. This is the equivalent of taking the merchandise out of the store (Acres, 2008). Another method of shoplifting is to switch price tags on pieces of merchandise or putting more expensive merchandise into less expensive packages so that when scanned at the register, the cheaper price tag will be rung up. This has occurred at Made Just for You Gifts, a small gift shop located in downtown Sycamore which sells hand crafted items, such as holiday decorations, wall hangings, blankets, and other home décor (Elliott, M., 2008). There are many people that will steal or use these deceptive practices to defraud a company, but not everyone takes part. Shoplifters are people of all ages, races, and sexes who have been caught stealing items ranging from a bottle of pop to a plasma television. At the DeKalb Wal-Mart, however, most shoplifters are of the middle class. Females that steal range from ages 14-21 and tend to steal jewelry and makeup, while males range from ages 15-19 and generally steal video games or DVDs (Acres, 2008).

Shoplifting Prevention

Retailers, such as Wal-Mart, are doing many things to prevent customers and employees from stealing. These include, but are not limited, to the following:

- Security Cameras – Can be found inside and outside; customers know they are being watched and may be afraid of getting caught on video
- Activation Tags – Can be found in items like DVDs, jewelry tags, and vacuum cleaners; can prevent customers from walking out the door without being stopped when the door alarms go off
- Door Alarms – Can be found at the entrance/exit doors; customers may not try to take merchandise for fear of getting caught by alarms
- Aggressive Hospitality – Associates asking suspicious customers if they need help; may catch shoplifters off guard or scare them because they know the associate has a watchful eye on them
- Secret Shoppers – Associates walking around like normal shoppers to specifically watch for any suspicious activity; customers may be afraid of stealing for fear of being caught because they do not know who to look out for
- Door Greeters/Security – Associates at the entrance and exit doors that ask shoppers to see their receipt if they set off the door alarms; people may be afraid of what will happen if caught

Wal-Mart also has a new return policy in place to prevent people from taking merchandise off the shelves and returning it. When a customer or employee walks in the door with merchandise to return, the door greeter is required to scan all items, print a sticker that corresponds with that piece of merchandise, and then place it on the item to be returned. When the person brings the merchandise to the service desk, the sticker should match with the piece of merchandise that is being returned. Also, if other customers witness someone being caught shoplifting or arrested, it may also help deter others from shoplifting. By having such methods in place, every month the DeKalb Wal-Mart has been able to stop about \$1,000 - \$2,000 worth of merchandise from leaving the store without being purchased. It is believed that the prevention/detection methods being used at the store are working because the number of apprehensions (those who are stopped for stealing) has increased since last year (Acres, 2008). For smaller retailers, such as Made Just for You Gifts, its employees greet the customers once they walk in the door to let the customer know they are watching. There are mirrors located near the back of the store to watch for suspicious activity. The employee will also try to get the merchandise out of the customers' hands and onto the counter to prevent the customer from concealing the merchandise. If a customer switches the price tag of one item with another, less expensive item, there is a description of that item on the tag. Or if the customer tries to remove the tag, the employee looks for a similar item or calls the crafter for a price. That way, the customer has a smaller chance of getting an unauthorized discount (Elliott, M., 2008). At restaurants, such as Fatty's Pub and Grille located in DeKalb, people may try to leave without paying for the bill. In order to try to prevent that from occurring, there is a bouncer that stands outside the door after hours who can

possibly intimidate people and prevent them from trying to skip out on the bill because the customer may fear the consequences. The wait staff is encouraged to closely watch their tables and take a credit card at any time. They are also required to take a credit card before someone starts a tab to ensure the bill will get paid (Lohman, 2008).

Shoplifting Detection

The prevention methods that are used in the retail industry can also help detect when shoplifting occurs. At Made Just for You Gifts, if they suspect that someone is trying to steal the employee may ask where a customer put the merchandise because the item needs to go back where it came from. Sometimes a customer will try to say they put the item in their pocket so they would not forget about it. Because this is a very small store and it does not have the resources to have high technological equipment, the best way to detect a customer stealing is to actually see him or watch the camera's videos. If someone is caught stealing, the customer is confronted and the local police are called. Then the states attorney is contacted and punishment is carried on from that point (Elliott, M. & Elliott, K., 2008). At Fatty's, if a customer tries to walk out on the bill, there is only one way out from the parking lot and the bouncer and/or waiter will not allow the customer to leave until he pays the bill. However, if the customer has already left before the member of the wait staff realizes the customer has left, that waiter or waitress must pay for the bill. By doing this, it will force the wait staff to better watch the customers (Lohman, 2008). If someone is caught stealing in Wal-Mart, the punishment can lead to a \$100 -\$1000 fine or imprisonment and the customer or employee will be kicked out of all stores. Employees may also lose their last paycheck if they are caught stealing because Wal-Mart is owed that money and they have no chance for rehire. Because shoplifting is such a large liability for retailers, they do not deal lightly with those who are caught stealing (Acres, 2008).

COLLUSION

Collusion Defined

Collusion occurs when two or more people try to defraud a company. In the retail industry, collusion can be between two employees, an employee and a customer, or two customers.

Two Employees

There are many ways that two employees can work together to defraud a company. They may both be on the clock or one could be working while the other is not. Some ways that two employees can defraud the company may include, but are not limited to, the following:

- **Stuffing the Trash** – One employee who is working in the receiving area could stuff trash bags with merchandise and then “take out the trash,” yet he is actually putting the bag of merchandise into the other associates car
- **Launching Merchandise** – One employee will launch merchandise over non-secured open areas, such as in an automotive garage or garden center section, and the other employee will take the merchandise and put it in their car
- **Steal and Return** – An employee will steal merchandise at one store that requires a receipt for return, such as DVDs, and then return it to another store where their friend works, and the friend will allow the return even if it goes against store policy
- **Bag Stuffing** – A cashier will put merchandise into an associate’s bag without ringing it up
- **Discounts** – A cashier will give their fellow associate extra discounts on merchandise that is supposed to be regular price.

Most of these are forms of shoplifting and can be classified as shoplifting; however, it turns into collusion because two or more people are working together (Wales, 2008).

Employee and Customer

All of the ways two employees work together are also ways that an employee and a customer can work together to defraud the company. For stuffing the trash and launching merchandise, an employee could just give the merchandise to a friend waiting outside. A customer could steal merchandise from the store and the employee working at the customer service desk could return the merchandise, such as a DVD, without the receipt

even though it is against store policy. Also, a cashier could have his friends go into his line and that cashier will put extra merchandise and/or expensive merchandise into their bag without scanning it. Employees will also give their friends discounts on merchandise that should be regular price. Another way to defraud the company is if an employee lets their friend use their discount card (Wales, 2008).

Two Customers

It is impossible for two customers to defraud a store the same way as two employees or as an employee and a customer; however, there are still many ways they can defraud the company. A common method is to distract the employees, either by arguing or pretending to faint. Then, when employees are trying to resolve the problem, another person will take merchandise. Another way is through a clean shopper, which is when one person acts suspicious and tries to get an associate's attention. Then, if the associate approaches him while his friend is leaving the store, his accomplice is the one actually taking merchandise out of the store. That way, the person that is stopped is "clean". By doing this, they can possibly file civil lawsuits for some monetary settlement and will still have stolen merchandise (Kimiecik & Thomas, 2006, p. 65-66).

Collusion Prevention

In order to prevent collusion from occurring, employees are informed of possible consequences from taking part of such acts during their orientation. Also seeing other employees arrested for colluding is a possible way to deter employees conspiring with their coworkers or their friends. The cameras can also help to prevent employees and/or customers from trying to defraud the company because they do not want to be caught on tape doing such things. Having multiple secret shoppers and managers working can prevent multiple employees from getting distracted or being fooled by clean shoppers. The Wal-Mart Customer Service Managers (CSMs) walk through the front to prevent employees from bag stuffing and/or discounting for other employees or their friends, because they will not want to get caught in the act. CSMs do believe that their prevention methods are working because there are fewer associates working together or associates helping their friends defraud the company (Acres, 2008). At Made Just for You Gifts, the few employees that were hired are family friends of Marcia Elliott, the owner. Therefore, they are less likely to collude with other employees because Marcia is there working with them. Because the crafter prices the merchandise and gets paid for the merchandise, it is difficult to give discounts. When a piece of merchandise is sold, the tag is removed, attached to a hand written ticket, and given back to the crafter with their payment. An employee cannot give discounts to customers because it would have to be documented on the ticket. Therefore, there is very little chance the employee will conspire with a friend (Elliott, M., 2008). At Fatty's, employees are allowed discounts on food whether or not they are working. However, in order for the employee to get their discount, a manager must approve the transaction which requires their code. This prevents managers from giving everybody a discount because the codes are unique to each manager. The restaurant also uses a computerized system that helps prevent the wait staff from giving

away free food and drinks because its inventory is linked to their computer system, so they will know if someone is giving away free food (Lohman, 2008).

Collusion Detection

Retailers understand that they will not be able to prevent everyone from trying to defraud their companies. However, they have many detection methods that are used for those people who do slip through their prevention methods. At Made Just for You Gifts, because of their unique tracking system it makes it very easy to detect when collusion is occurring. If an employee does do such acts, he would get fired, probably face legal ramifications, and possibly lose a good friend (Elliott, M. 2008). At Wal-Mart, the Front End Manager is given daily reports which can contain red flags for potential fraudulent activity. For example, it shows the number of voids an associate has made, which can indicate that an associate could be removing multiple items for a friend, but keeping them in the bag. Also, if an associate has multiple price overrides (indicates price changes), that could mean the cashier is giving discounts to friends or other employees for merchandise that should be regular price. Managers also listen to other associates that may see cashiers giving extra discounts to their friends or coworkers. They will then keep a watchful eye on those suspicious employees. A major way for such retailers like Wal-Mart to catch employees working together or employees working with customers is to keep their eyes and ears open for suspicious behavior. For those employees and customers who get caught, if the activities are similar to those of shoplifters, they will have the same consequences. Included could be being permanently kicked out of Wal-Mart and/or leading to a fine or imprisonment. For those employees who are caught participating in such actions, they also lose the chance of being rehired by Wal-Mart Inc. If they are caught giving discounts to other employees or customers or give their discount card to their friends, they could receive anything from a verbal or written warning to termination (Wales, 2008). As stated earlier, Fatty's has its inventory linked to a computer system which can detect if someone is giving away free food and drinks. If it is found that someone on the wait staff has been doing that, they will be suspended for a week and given a written warning explaining why they have been suspended. If it continues to occur, the employee will be fired, usually after the second offense (Lohman, 2008).

REGISTER THEFT

Register Theft Defined

Register theft occurs when money is removed from the drawer, either through actually taking it out or a discrepancy in some form of payment made. Some forms of register theft can include, but is not limited to the following:

- Skimming – Cashiers or other associates that handle money will put the money directly in their pocket or hide it under papers and then pocket the cash later (Arendt, 2008)
- Counterfeit Money – Fake bills either printed on United States currency similar-feeling paper or \$5 bills that are washed and turned into \$100 bills; they are used at the register to buy expensive items to get things for free or on small orders to get real money back in change
- Check Fraud – Customers bring in personal checks that have different names on the check or numbers changed or missing in the bank routing number. They are used to pay for mainly large orders, and since most places take a few days to clear checks with banks, the customers already have what they want (Wales, 2008); customers may also use checks from accounts that have been closed or have insufficient funds (Kimiecik & Thomas, 2006, p. 105)
- Con Artists – People who gain the trust of employees through convincing deception and get money from the employee.
 - Customers claim they did not receive all their change back from cashier. They may have an accomplice who used a large bill to pay for an order a little while before them and describe the bill they used – for example, how they wrote something on it (Kimiecik & Thomas, 2006, 115-116)
 - They will put their money in their pocket really quick and put some of their cash in it and then remove their hand, holding less cash and claim they did not receive the correct change back
- Quick Change Artists – Customers will usually pay for small orders using a large bill, then when the cashier hands them their change, the customer will ask for smaller bills and keep asking for smaller bills at a fast rate, that way the cashier gets confused and is trying to keep up with the customer and loses track of what they are doing; by the time the cashier closes their drawer the customer is leaving will possibly hundreds of dollars more than when they came in (Arendt, 2008)

Employees can also falsify returns and pocket the cash. For example, the employee can return a high price item for a “customer,” take the money out of the register, and put the cash in their pocket. Then when the drawer is counted at the end of the night, the amount in the drawer will match the report indicating how much should be in the drawer (Association, 2003, p. 212). Register theft can cost companies billions of dollars in losses each year. Millions of dollars alone can be from con artists and quick change artists (Kimiecik & Thomas, 2006, p. 103).

Register Theft Prevention

In order to prevent register theft from occurring, retailers are informing their associates of actions that will be taken if caught stealing from a register. For example, at Fatty’s there is a point-of-sale system which keeps track of how much money should be in the register. Then at the end of the night if the register is short, all the people that were on that register have to pay out of their pocket. This will help prevent people from stealing because they will have to pay some of the money back and force their coworkers to pay (Lohman, 2008). Made Just for You Gifts also has a similar system; however, instead of a computerized print out, the tickets from the day are counted and compared to the amount that should be in the drawer (Elliott, M., 2008). Also, there are cameras above each register which can help prevent cashiers from stealing from the register because they are always being watched. Also, seeing their fellow associates being arrested for register theft is a good way to help deter or prevent others from committing the same crime. The DeKalb Wal-Mart does not deal with check fraud as much any more because it have an electronic check system which works very similar to a debit card. If the check is bad, a slip will print immediately saying the check is declined (Arendt, 2008). However, for those companies who have not updated to this system, they will have to inform their associates about check fraud and what to look for on the checks. At Made Just for You Gifts, in order to prevent check fraud the employees ask for the customer’s driver’s license and compare the information on the check to the information on the driver’s license; if it is different, the employee will also put the information from the driver’s license on the check (Elliott, M. 2008). Companies also need to keep their associates informed about con artists and quick change artists, such as telling them not to make change for customers, but instead direct them to a CSM, or if the cashier believes there is suspicious activity going on with the customer, to call a CSM over for help. The DeKalb Wal-Mart is confident that its preventative measures are working because it has had fewer problems with the above forms of register fraud (Arendt, 2008).

Register Theft Detection

The DeKalb Wal-Mart and other retailers have many ways of detecting register theft, which includes, but is not limited to, the following:

- Cash Office – Counts money from each register and compares to register readings, which indicates how much should be in each register
- Register Audits – If the cash office found a shortage from one register, all associates on that register are audited. Their drawer is counted before they

start using it and counted after and compared to a register reading for how much should be in there and that can determine if the register is under that specific amount. Audits are also performed if a customer claims they did not receive the correct amount of change back

- Cameras – Cameras above each register can detect if cashiers are stealing or pocketing the cash from the registers (Wales, 2008)
- Electronic Check System – Detects if the check that is being used is a valid check and if there is sufficient funds in the account
- Bill Pens – If the bill is issued by the United States Treasury Department, the pen will not mark the bill; however, if it is counterfeit, the pen will detect it by marking a black stain on it (Kimiecik & Thomas, 2006, p. 113-114)
- Bill Checks – Holding the bill, specifically \$50 and \$100, up to the light and verifying that the bill is valid; also, looking more closely at the inscription on the bill for USA 50 or USA 100 because counterfeit \$100 may say USA FIVE which indicates the bill has been washed and reprinted into a \$100 bill

All of these are great ways that companies like Wal-Mart have been able to detect and possibly stop potential theft from the register. As stated earlier, at Fatty's when the register is short of cash, the wait staff is liable and must pay back the difference (Lohman, 2008). Made Just for You Gifts has been fortunate enough that it has not dealt with register theft; however, if there was an inconsistency, the employee working would be questioned about why the register is off balance. If they did steal, they would be fired immediately. Because the company does not have an electronic check system, there is a delay to find out if a check is bad. If a check is returned as an insufficient funds check, the company will call or write a letter to the customer. Usually the customer will take care of the problem right away; however if they do not, the company will then go to the states attorney's office and punishment will be carried forward (Elliott, M., 2008). When associates at Wal-Mart are detected of stealing from the registers, the CSM or Wal-Mart security is informed. The police are also involved to take the associate out of the store. If a customer is detected and has succeeded at register theft, the associate who was taken advantage of informs the Wal-Mart security and the police of their appearance. Then, any local Wal-Mart stores are informed of the thief or con artist to potentially help catch him (Arendt, 2008).

FINANCIAL STATEMENT FRAUD

Financial Statement Fraud Defined

Financial statement fraud occurs when a company misleads the financial statement user to provide any of the following benefits:

- Increase stock prices
- Create a greater value of stock options
- Continue with bank financing
- Gain periodic bonuses
- Receive a promotion
- Gain other positive financial results (Coenen, 2008, p. 95-96)

Typically at a management level, they will falsify financial statements to overstate income or assets, and upper level executives will try to cover up misrepresentation or misappropriation through falsifying the financial statements (Rezaee, 2002, p. 2). In the retail industry, some important accounts that auditors must pay close attention to would be cash, inventory, expense accounts and revenue accounts. If there is a large fluctuation in any of those accounts, it may indicate that there may be fraud occurring at the store level. Also, inventory accounts need to be properly stated and valued, so the auditors need to ensure their clients are not inflating the amount or value of their inventory. For expense accounts, the auditors need to make sure their client is expensing required costs and not capitalizing them. They also need to make sure their client is not recognizing revenue prematurely (Valerio, 2008). Smaller businesses, such as retail and service organizations that make less than \$5 million annually in sales, have to focus on employee or non-owner financial statement fraud if the owner is not in charge of the accounting records. At places like Made Just for You Gifts and Fatty's, a family member is in charge of the books, so falsifying them or stealing from the company would cause family problems (Elliott, M., 2008 & Lohman, 2008). Small businesses that do not have a friend or family member in charge of the books do not have the same technology as large companies, therefore those types of businesses are more at risk of fraudulent financial reporting to conceal theft (Fludesill & Johnson, 2001). The percentage of occurrences of financial statement frauds in the retail industry is rather high when compared to other industries. For example, of the 63 fraud cases that occurred in the retail industry, 15.9% of those were related to fraudulent statements. That is 5.6% higher than all the cases from every industry and makes the retail industry the fourth highest based on percentages (Association, 2008, p. 32 & 35).

Financial Statement Fraud Prevention

Companies can help prevent financial statement fraud by having quality internal controls, meaning that one person should not be doing two of the following: recording, authorizing, or having custody in the same accounting cycle. Also public companies must comply with the Sarbanes-Oxley Act of 2002 (SOX), which requires management to take responsibility for the understanding of the effectiveness of controls or lack of controls. Also, it requires anonymous and confidential hotlines that employees can use if they believe there is some fraud occurring. SOX also prohibits certain things from occurring such as loaning money to executive officers or directors for personal use (Coenen, 2008, p. 150-151). Other ways for help prevent fraud from occurring is through better practices in fraud management which may include:

- Fraud Awareness Training – Train employees about what fraud is and what is not acceptable behavior
- Creating and Instilling a Culture of Integrity – Develop a culture where fraud is not tolerated and encourage that from employees
- Code of Ethics – Create ethical codes for the company that deals with general conduct and supports an ethical corporate culture (Coenen, 2008, p. 171-174)
- Tone at the Top – Executives that follow to the code of ethics or integrity, then employees are more likely to follow their example
- Anonymous Hotlines – Allow employees to report fraudulent activity without fear of ridicule or consequences
- Creating a Positive Work Environment – Can encourage ethical behavior among employees because they feel secure and valued at their jobs
- Managing the Fraud Risk – Have insurance coverage for the potential of the following
 - Employee theft losses
 - Fraud losses by employees
 - Fraud losses by vendor, directors, or other outside parties
 - Indirect and consequential losses from employee dishonesty including lost profits or business opportunities, investigative costs, and legal fees
- Hiring the Right Employees – Look into the criminal and financial backgrounds of potential employees, also do drug screenings, verify credentials, talk with past places of employment, and obtain references to check for any red flags that the person may not be a good candidate for hire

Although companies are not able to stop fraud from occurring, by having preventative measures in place it will help reduce the number of fraudulent activities from occurring (Coenen, 2008, p. 178-185). As for a small business, it is the owner's and manager's responsibility to prevent financial statement fraud. The best way to prevent fraud from occurring is to pay attention to what is going, perform follow-ups regularly, and oversee employee functions, not just delegate the functions. Because small businesses probably do not have an internal auditing department or the funds to implement in-depth auditing

procedures, it is important for the owners and managers to take those preventative measures to reduce the chances of being defrauded (Fludesill & Johnson, 2001).

Financial Statement Fraud Detection

For those fraudulent activities that do occur, it is up to the auditors to detect them. For example, if the auditor were looking at purchases, he would go through clients' systems and test the controls to see if all purchases are accounted for and that they actually occurred. A great way to detect if there is any potential fraud is to look for any anomalies or irregularities. Auditors will compare expected results to what is actually presented. Then they inspect the journal entries that have been posted to see if there are any discrepancies in the numbers and inquire regarding discrepancies. If there is a potential fraud and it has been determined to be intentional, they may be required to go to the Audit Committee and/or Internal Audit in-house Legal(Valerio, 2008). For small businesses, it is the responsibility of the owner, manager, and auditor (if the company chooses to have an auditor and can afford the cost) to detect fraud. The auditor is looking for fraud that has a material effect on the financial statements. If the company does not choose to hire an external auditor, then it is the owner's job to detect fraud that is material. The following are some ways to potentially help find fraud:

- Focus on the Possibilities – Learn about what can go wrong and how the financial statements can be falsified
- Focus on the Changes – Look for changes in the employee's attitude, behavior, or lifestyle and major differences in the accounting records such as the account balances
- Know the Symptoms – Look at cash and inventory shortages or unknown vendors that suddenly appear
- Design Controls and Audit Procedures – Review unusual transactions, ask questions about processes and, if necessary, sample or redo employees work
- Follow Through on All Symptoms Observed – Resolve solution immediately (there may be more than just one symptom), and look into the possibility of a private investigator if possible and necessary

Not all of these procedures are practical or possible for some small businesses; however, most of these only require paying very close attention (Fludesill & Johnson, 2001).

CONCLUSION

Shoplifting

Shoplifting has been a problem for years and will continue to be a problem in the future of the retail industry. Shoplifters are people of many different ages, races, and ethnicities. Customers and employees are constantly finding ways to defraud a company which adds cost to that company in addition to honest customers and employees. Large corporations like Wal-Mart have increased their technology and resources to prevent and detect shoplifting. Smaller businesses like Made Just for You Gifts may not have the same resources but pay close attention to suspicious acts. Fatty's also tries to ensure that people are not just walking out without paying by encouraging the wait staff to carefully watch over their customers. It does not appear that the retail industry is able to prevent people from shoplifting as much as it would like, so therefore it must focus more on detecting shoplifting.

Collusion

Collusion can occur in many different ways between many different people. If it occurs between two employees, a company must be watching carefully to catch them. If a customer and an employee are colluding together, larger companies usually use daily reports from registers to determine if a cashier has been giving large discounts to friends. Smaller companies hire close family friends to help reduce collusion from occurring. Collusion between two customers can be difficult to catch because they tend to be smooth talkers and often catch the employees off guard. Companies need to focus and be aware if a potential collusive act is occurring because otherwise it could cost the company money in stolen merchandise or cash/legal fees.

Register Theft

Register theft costs companies millions of dollars a year. Whether it is a cashier skimming from his register, check fraud, or a quick change artist confusing the cashier out of money, it is a major problem. Smaller companies such as Made Just for You Gifts mainly worry about check fraud; however, the company tries to reduce its chances of losing money by asking for the driver's license to learn where the customer lives in case there is a problem. Restaurants such as Fatty's inform their wait staff that it is their responsibility to keep the register in balance or they will suffer the consequences. Most retailers have some auditing system to check for a difference in the cash in the register and the amount that should be in the register. That is a good way to detect early if an employee can cause financial problems for the company.

Financial Statement Fraud

Financial statement fraud could cause a company to go out of business depending on the magnitude of the fraud. None the less, it is something that large corporations and small business owners need to understand. It is the responsibility of the company's internal auditors and internal controls to help prevent financial statement fraud from occurring, and it is the business owner's responsibility to prevent it. The external auditor is then responsible for detecting any material misstatements. For smaller companies, that might not always be the case. Because one may not have the resources to hire an external auditor, it is the owner's or manager's job to detect financial statement fraud.

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